

# Assessing the Impact of Commodity Prices on Producers in Low-Income Countries

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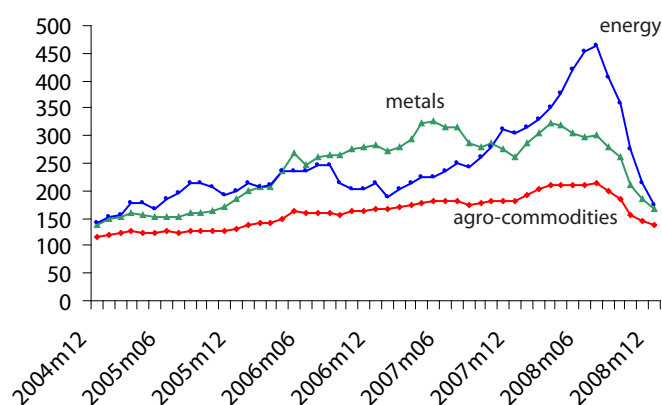
**The volatility of the international prices of commodities** is well known. While the prices of many commodities had risen sharply in recent years, they have abruptly declined since mid 2008. Drawing on research on Tanzania (Bargawi 2008), this Development Viewpoint focuses on how such price movements can affect local producers of non-food agricultural commodities in low-income countries.

The Figure illustrates that price volatility can differ significantly across major commodity groups. For instance, the prices of agro-commodities have clearly varied less than those for metals or energy.

Metal prices doubled between end 2004 and early 2007, then dipped throughout the rest of 2007, rose again in early 2008 but plummeted by half during the last eight months of 2008. After having dipped in late 2006, energy prices trebled during the next 18 months, reaching an all-time high in July 2008. However, they nose-dived in the last six months of 2008 to reach levels last seen in mid 2005.

In contrast, agro-commodity prices rose much more moderately and steadily until the summer of 2008. Moreover, while their decline after July 2008 has coincided with that of the other two commodity groups, it has been more modest.

Commodity Price Indices (2000=100)



Source: IMF, Indices of Market Prices for Commodity Groups (Dec 2004– Dec 2008)

The liberalisation of agricultural markets in low-income countries such as Tanzania has increased the vulnerability of the local producers of agro-commodities to such international price behaviour. This Development Viewpoint focuses on non-food producers.

First, the liberalisation of domestic marketing—as has occurred in Tanzania—has led to reduced market access and rising costs of fuel and transport for agro-commodity producers. As illustrated in the figure, soaring energy prices up to mid 2008 dwarfed any price increases in their outputs, leading to a significant fall in their real incomes.

Second, the removal of state support for fertilizers and pesticides across many low-income countries has resulted in a general rise in these costs. For example, international fertilizer prices increased over 200 per cent between mid 2006 and the summer of 2008. In Tanzania input costs have risen dramatically since the mid 1990s—undercutting any real sense of a commodity boom during the rise in output prices and exacerbating the impact of recent price declines.

Third, recent exchange-rate movements have worked against the interests of some agro-commodity producers. For example, West African cotton producers have suffered from relatively lower output prices in recent years, due in part to the pegging of the CFA Franc to the Euro.

International Cotton Prices

	US cents per lb	CFA Francs per lb
November 2000	64	620
May 2008	74	508
Percentage Change	16%	-18%

Sources: IMF and Cotlook A-Index

In recent years, the Euro has appreciated relative to the US dollar. As a result, between November 2000 and May 2008, when international cotton prices quoted in US dollars were increasing by 16 per cent, they declined by 18 per cent when they were converted into CFA Francs (see Table).

Finally, the extent to which prices in world markets have been transmitted to local producers depends on who has market power. Even though processing and marketing chains have been liberalised in many low-income countries, they are often dominated by powerful private agents who can set prices. Hence, even when world commodity prices rise, local producers can be deprived of much the potential benefit (Bargawi 2008).

In summary, this Viewpoint has highlighted the need to differentiate among the price movements of various primary commodities. The reason is that some local producers have suffered more from rising inputs costs for commodities, such as fuel, than benefited from rising output prices for their agro-commodities.

Moreover, liberalised agricultural markets have left local producers more vulnerable, in general, to factors such as rising input costs, exchange-rate movements and diminished access to markets. In addition, various middlemen, such as in processing and marketing, can now corner the lion's share of the benefits from rising commodity prices.

The real incomes of local producers of agro-commodities in poorer countries did not rise proportionately to the boom in commodity prices in recent years and their real incomes are likely to be disproportionately reduced during the most recent slump in output prices.

#### References:

Hannah Bargawi (2008), 'Cotton Price Fluctuations at the Ground-level: Assessing the Difference in Impact in Rural Tanzania' NCCR Working Paper No. 2008/11.